

MARICOPA COUNTY BOARD OF SUPERVISORS MINUTE BOOK

**SPECIAL STUDY SESSION
January 23, 2003**

The Board of Supervisors of Maricopa County, Arizona convened at 9:00 a.m., January 23, 2003, in the Supervisors' Conference Room, 301 W. Jefferson, Phoenix, Arizona, with the following members present: Fulton Brock, Chairman; Andy Kunasek, Vice Chairman; Max W. Wilson, and Mary Rose Wilcox. Absent: Don Stapley. Also present: Fran McCarroll, Clerk of the Board; Shirley Million, Administrative Coordinator; David Smith, County Administrative Officer; and Paul Golab, Deputy County Attorney. Votes of the Members will be recorded as follows: (aye-no-absent-abstain).

PRESENTATION: ELLIOT POLLACK UPDATE AND ECONOMIC FORECAST

Item: Update by Elliot Pollack of the economic forecast for Maricopa County and the national and local economic factors that impact Maricopa County's revenues. (C49030238) (ADM1825)

Mr. Pollack said that the numbers may not indicate it but the national recession probably ended about a year ago, however, there has also been a very "anemic recovery nationally." He indicated that mortgage rates and the housing market and auto sales nationally have been "incredibly strong" through the recession. Consequently there will not be any "bounce back" in either industry during the recovery. The three things that usually recover quickly during a recovery are housing, autos and business equipment spending, with the latter being the only one of the three likely to show any bounce in this particular period of recovery. He said that consumer spending, which is two-thirds of all economic activity, shows that consumers are just beginning to get their financial houses in order. Currently, confidence is lower than it was during the aftermath of September 11th, largely due to the geo-political factor of possible war and other things people feel they do not have any control over. He said that the good news is that personal income is up, unlike previous recessions, but most people still have a lot of debt in comparison to their income and again, there won't be a "bounce" in that spending area. He indicated that a two-year lag should be expected with the usual indicators appearing during that period.

The long-term outlook is good nationally, but Mr. Pollack believes recovery will continue to be slow for Arizona and Phoenix. Arizona is 33rd in employment growth but 2nd in population growth – for the 9th year. Arizona is the 2nd fastest growing state, 2nd in domestic migration, 8th in international migration and it is the 20th largest state in population. He said to expect a situation where a lot of people will come here without jobs and without an ability to get a job, which will put great pressure on all the social systems of the State. He discussed prospective housing and commercial and industrial building outlooks, which he believes will continue in a positive vein. Finally, Mr. Pollack recommended that the County continue to use the pessimistic numbers in their upcoming budgets, and to use 1.4% to replace the projected 3% for the remainder of FY 2003.

Discussion ensued on the effect of the State's budget cuts on Maricopa County, reduced property valuation impacting taxes, sales tax revenues, affordable housing, and the Governor's proposed budget vs. the JLBC estimates (Mr. Pollack said "the truth lies somewhere in-between the two."). Also addressed were Arizona's high commercial tax codes as they impact bringing new business and industry to the Valley.

DISCUSSION: FY2004 BUDGET REDUCTIONS

Item: Concerns regarding proposed FY 2004 budget reductions on criminal justice programs in Maricopa County and an outline of problems, inter-relationships and issues in the county criminal justice system in meeting current and future levels of responsibility. (C38030148) (ADM1002)

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Rick Romley, County Attorney, said that crime in Maricopa County has increased 23% since 1999 and the number of criminal violations has risen from 182,036 in 1999 to nearly 225,000 in FY 2002. He indicated that this is the first time that concerns of enforcement, prosecutorial and judicial officials have reached the level to engage them to unite in a concerted effort to inform the Board of these concerns. He said they all strongly feel that the Board Members need to be cognizant of the issues that are facing the entire criminal justice system in Maricopa County and they hope their presentation will be a guide for them in setting their budget-related priorities.

Mr. Romley was joined in this presentation by Joe Arpaio, Sheriff, and Colin Campbell, Presiding Judge. Mr. Romley said that adult criminal filings in homicide cases have increased 142%, violent crime cases have increased more than 11% and motor vehicle theft cases have doubled since 1999. All of these have an effect on all three departments. Criminal offenses receive 82% of the total budget for the trial courts. In addition, recent decisions by the U.S. Supreme Court, i.e., the Ring decision, will impact Arizona by increasing trial costs by millions of dollars in both short and long term budgeting. Arizona ranks sixth in the nation in identity thefts per capita and Phoenix ranks eighth. Each official outlined the basic cost expenditures in his criminal justice department while costs are increasing these offices face decreased funding and threats of additional cuts. All three said they have cut back all they can and still provide effective services to the community. If there are more cuts, all indicated that they would be forced to eliminate vital services and staff.

The fact that the County and all its departments are facing budget cuts and decreased funding was discussed along with the difficult decisions that will have to be made because of this fact. The great impact on various funding-areas impacting the County jails was discussed. Additionally, the group commented on the probability of forced early-release of prisoners into society resulting from the increased burden of costs caused by the contemplated 2,000-prisoner transfer from Arizona prisons to County jails. It was suggested that the three law enforcement officers take their presentation to the State Legislature so they can be made aware of what is at stake and what could result from continued cuts being passed down to the County.

Supervisor Wilson commented that it should be remembered that there are also huge liability issues involving the jails that the Board cannot foresee and budget for and over which they have no control or means of prevention. He said that these greatly impact the County's resources and ability to fund the numerous other departmental budgets.

Supervisor Kunasek said that it is important for the public to understand that Counties are administrators for the State and mandated by them to carry out various functions. He continued, "You are preaching to the choir here. What you need to do is take your message to the Legislature and inform them of these consequences because what they do has a big impact on your offices."

Rick Romley agreed that these issues need to be collectively addressed at the State level because the public seems to be under the impression that the transfer of prisoners is simply a transfer of costs from the State to the County and that isn't true. He said, "It is a major legal issue." Mr. Romley felt that the gravity of the situation should be made public.

The Chairman called a 5-minute break at this time.

PRESENTATION: FINANCIAL STATUS OF FY 2002-2003 BUDGET

Item: Financial status of the FY 2002-2003 budget and risk factors associated with the development of the FY 2003-2004 budget. (C49030248) (ADM1825)

Sandi Wilson, Deputy County Administrator, said that OMB (Office of Management and Budget) is coming into a more complete understanding of the County's budget position as departments are submitting their individual budgets for the coming fiscal year. She spoke of the Governor's proposed budget and its impact on Maricopa County. She said OMB is presenting a proposed reduction in this year's (2003) budget to the Board in the form of an adjustment to the State-shared tax revenue forecast presented to them by Mr. Pollack. She indicated that the recommended reduction has been changed from \$3,763,610 (on today's agenda) to \$5,290,948. She expects to see another revised sales tax projection from Mr. Pollack to further reduce the General Fund revenue projection within the next few months. She indicated that year-to-date, the County is currently .1% under last year's growth. The recovery has been slower than foreseen when planning took place for the fiscal year.

Ms. Wilson explained that the County has been lucky in comparison to the State and the City of Phoenix, both of whom have huge budget deficits. She expects continued "hits" from the State, which will begin to impact the County the way other jurisdictions have been affected. She indicated that OMB would continue to use the "pessimistic" forecast projections until it is clearly seen that the impact of world-events is lessened and a continuing recovery is underway.

Chris Bradley, Deputy Budget Director, showed a series of slides that had been presented to the Joint Legislative Budget Committee (JLBC), which he said would give the Board "an idea of the magnitude of the problem the State is really facing." Much of the State's budget, 63%, is non-discretionary, making the recovery more difficult. He indicated that the negative gap between the State's revenue and expenditure started as early as 2000 – during the "good times" – and despite the spending cuts that have been implemented, revenue has continued to decline and their "budgetary hole" is deepening while the resulting impact on cities and counties continues to escalate.

Mr. Bradley also spoke of the impact of transferring State prisoners to the County and the \$25/day per diem they have tentatively offered to reimburse the County per inmate, which would be approximately \$16.25 million annually. However, he said there can be no confidence that "payment would ever come-through." He indicated that there are inmates the State is legally obliged to pay us for now, that they don't pay for in full. Discussion ensued on this and the huge difference in actual costs for prisoners and the promised reimbursement amount. A comparison of the "offered rate" with the much higher reimbursement fee (regarded as a break-even amount) that the County charges cities and towns for their prisoners was also considered.

Sandi Wilson said that the long process the County has taken to evaluate its own inmate population and problems, which culminated in the recent vote to fund ongoing operations, would be invalidated by the State's action and the resulting overpopulation of the County's current and planned jail facilities. She said 2,000 additional prisoners would more than double the current population of Tent City, and there is doubt that enough contingent land is available to accommodate that many additional tents. There would be many additional and very costly problems with having those prisoners housed at Tent City. Different conditions are mandated for prisoners held in the State prison than those held in jails.

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Chairman Brock said that as soon as the new jail is completed, another new jail would already be overdue to house the additional prisoners. Ms. Wilson added, "and no funding source for that new jail."

The Chairman asked if this transfer should be regarded as a temporary or permanent solution to the State's inmate problem.

Mr. Smith said that the State budget is a one-year document and they have a long-term structural problem. "I don't think they will be out of that for at least three years, maybe longer. I don't know how we can expect the problem would show up one year and be gone the next." He indicated that the State can hurt the County in so many ways that "we can't just tell them no . . . but accepting 2000 inmates into our system is irrational, it's a bad result and it doesn't work financially, problematically, legally or any way I can think of." He would like the County to be placed in a position to help the State diagnose and solve its budget problems, keeping within the parameters of both systems.

Ms. Wilson summarized the status of the General Fund budget saying that most of the County's General Fund is composed of fixed and mandated payments with a much smaller amount left for all non-mandated expenditures. She explained, "We are an arm of State government and we get our revenue primarily from State Government – 45% of County revenues come from state-shared sales tax, which has stopped growing as it has formerly grown." She said that a way must be found to make the Legislators aware of the situation. "We need partners to go with us down to the State."

Supervisor Kunasek remarked, "Maybe the time is coming when we should consider a Charter Government to create some real separation and some legal distinctions between us and the State." He explained that the financial deals the County had made formerly to help the State when they had fiscal crises, "were never temporary no matter that they might tell us that they would be. They never take them away, they never reverse them . . . if we don't learn from our history we're going to repeat it."

ADJUSTMENTS IN REVENUE AND EXPENDITURE BUDGETS FOR FY 2002-2003

Fran McCarroll, Clerk of the Board, reminded the Board that the recommended appropriation reduction in this item has been changed to \$5,290,948 as announced earlier by Mr. Wilson. (ADM1801)

Motion was made by Supervisor Kunasek, seconded by Supervisor Wilcox, and carried by majority vote (3-1-1) with Supervisors Kunasek, Wilson and Wilcox voting "aye" and Chairman Brock voting "no" (Supervisor Stapley was absent) to authorize an appropriation adjustment reducing the FY 2002-2003 General Fund State-Shared Sales Tax Revenue budget in the amount of ~~\$3,763,610~~ **\$5,290,948**. Also authorize a corresponding adjustment reducing FY 2002-2003 expenditures in the same amount. This expenditure adjustment will be made to the Employee Initiatives line within General Government, General Fund Reserved Contingency. This adjustment will help to ensure that the County's budget maintains structural balance. (C49030250)

MEETING ADJOURNED

There being no further business to come before the Board, the meeting was adjourned.

Fulton Brock, Chairman of the Board

ATTEST:

Fran McCarroll, Clerk of the Board